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SUBJECT: UKRAINE: LEADING POLITICIANS VIE FOR REPUTATION AS MOST  
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[11](#). (U) Summary: PM Viktor Yanukovych and opposition leader Yuliya Tymoshenko held dueling meetings with investors on September 10 to present their plans to improve the investment and business climate. Tymoshenko promised to push forward transparent privatizations, open up energy exploration to foreign bidders, and dramatically cut red tape affecting businesses. She backed away from previous calls to eliminate the Value Added Tax (VAT) and focused instead on reduction of the country's excessive payroll taxes. Yanukovych emphasized his goal of bringing Ukraine's business regulatory environment up to European standards and promised speedy legislative action should elections return him as head of the government. Several private sector participants at the meetings criticized the GOU for its failure to do more for businesses, allowing Tymoshenko to score some political points. Both Yanukovych and Tymoshenko showed they know what to tell potential investors, even though neither managed to improve the investment climate while in office. End Summary.

[12](#). (U) Viktor Yanukovych, Prime Minister and Party of Regions leader, and Yuliya Tymoshenko, leader of the opposition bloc BYuT, held competing meetings with international investors on September [10](#). Yanukovych and Tymoshenko each presented their plans for improving Ukraine's investment and business climate. Both events attracted a large media presence, as well as a good showing from foreign companies and the diplomatic corps. President Viktor Yuschenko plans to hold a similar event next week.

Yuliya's "Contract with Investors"

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[13](#). (U) Tymoshenko formally presented her "Contract with Investors," a document outlining BYuT's program to increase investment (and available online at [http://www.ibyut.com/downloads\\_files/ContractwithInvestors.pdf](http://www.ibyut.com/downloads_files/ContractwithInvestors.pdf)), and argued her credentials as the most investor-friendly of the leading political candidates. She emphasized her track record in supporting transparent privatizations and said a government under her leadership would accelerate privatization of state-owned enterprises, especially in the energy and agricultural sectors. Tymoshenko promised to open up energy exploration to foreign bidders, and to rid Ukraine of "monopolies," in particular RosUkrEnergo, that control the sector. She also pledged to cut red tape, saying that BYuT would introduce legislation to simplify procedures for purchasing land and to reduce the country's regulatory bureaucracy. Tymoshenko said her government would never resort to export restrictions of the kind recently imposed by the GOU on grain.

¶4. (U) On the fiscal side, Tymoshenko backed away somewhat from her recent calls to abolish the Value Added Tax (VAT) (reftel), saying that she was now awaiting EU analysis of her proposals. Instead Tymoshenko focused on the payroll tax, which she promised to reduce or even eliminate altogether in order to bring Ukrainian salaries "out of the shadows." (Note: A recent OECD report also identified excessive payroll taxes as "a major incentive to under-report wages and salaries" and called for their reform. End note.) Finally, Tymoshenko said judicial reform was needed to eliminate corruption in the courts so that potential investors could be confident that contracts signed today would be honored tomorrow.

#### Yanukovych: Moving toward Europe

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¶5. (U) Yanukovych shared the stage with Minister of Economy Anatoliy Kinakh and economic adviser/number four on the Regions list Inna Bohoslovskaya in his own effort to woo the international business community. They spent little time boasting about their track record, however, and rather acknowledged the need for significant reforms in the manner that Ukraine regulates private enterprise.

¶6. (U) Yanukovych repeatedly emphasized the goal of bringing Ukraine's business regulatory environment up to European standards. He also praised the passage of legislation needed for Ukraine's WTO accession as an example of the executive and legislative branches working together to improve Ukraine's investment climate. Yanukovych agreed with Tymoshenko that lack of constitutional reform and the country's weak judicial system were at the heart of Ukraine's continued problems with the business climate.

#### Regions Promises New and Improved Legislation

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¶7. (U) Kinakh and Bohoslovskaya said a new parliament (presumably under Regions' control, of course) would quickly pass the much delayed law on joint stock companies. Bohoslovskaya said the latest draft was "already 99 percent finished." Kinakh also said the next Rada would pass a new bankruptcy law as well as a law that would strengthen the capital markets' depository system. The GOU had underestimated what still needed to be done to reform the country's land laws, Kinakh said. A draft law in the Rada would simplify land transactions and make them more transparent. The new Rada would also pass the tax code, address the problems associated with the VAT regime, and simplify the cumbersome system of payroll taxes, Kinakh said.

¶8. (U) Bohoslovskaya said the Government Committee on Reforms had established 21 working groups that had focused on various aspects of regulatory reform until last spring's political events disrupted their work. (Note: Senior GOU leaders have told us the GOU engaged the McKinsey consultants to help these working groups.) Each will make policy recommendations that will be subjected to public debate before the Cabinet of Ministers signs off and submits them to the new Rada for action. Two different international consultancy groups would issue recommendations to ensure that any legislative action was in conformity with European standards of business regulation, she said. The goal was to radically simplify business regulations and eliminate the licensing and most of the regulations for all types of business except those that can affect public health and welfare, she said. She acknowledged the shortcomings of the VAT system; the problem was that all tax systems in countries of the former Soviet Union that involved refunds that were heavily abused by criminal fraud. Any changes in the system would need to take that fact into account, she said.

#### Tough Questions for Viktor, Softballs for Yuliya

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¶9. (U) Several private sector reps, both domestic and foreign, enumerated their problems and frustrations to Yanukovych in front of the rolling cameras. Their complaints focused on excessive and contradictory regulation, tax problems (in particular VAT reimbursement), and frustrations with customs.

¶10. (U) Martin Raiser of the World Bank also said that Ukraine needed to reduce the amount of duplicate and contradictory laws and

regulations governing commercial activities. Standardization regulations needed to be upgraded, and a new public procurement law was desperately needed. The GOU could also better mobilize funds already approved by the WB and the IMF but which had yet to be tapped. In response to Yanukovych's statement that his government would reduce taxes but significantly increase social benefits, Raiser said that Ukrainian officials needed to acknowledge that expenditures would need to be reduced as well when reducing taxes. On energy security, the GOU needed to understand that it could not get needed foreign investment in the energy sector without substantive reforms of pricing and rates. Finally, Ukraine could not mobilize more investment capital through its capital markets without modernizing the capital markets regulatory framework, Raiser said.

¶11. (U) Tymoshenko, not forced to defend any government policies, used investors' concerns to criticize the Yanukovych government. Representatives of energy companies dominated the Q&A session, allowing Tymoshenko to go on the offensive in one of her favorite areas of attack.

Comment: They Talk the Talk, but who will Walk the Walk?

¶12. (SBU) Both Yanukovych and Tymoshenko showed a common understanding of what needs to be done to improve Ukraine's investment and business climate, and each was anxious to convince business leaders that he/she is the right man/woman for the job. There seems to be a reasonable degree of consensus in the Ukrainian political elite in identifying the economic challenges Ukraine faces. Where some differences were apparent was in the solutions proffered: Tymoshenko's recommendations had a more populist, "throw the rascals out" flavor, while Yanukovych took a more technocratic approach. We suspect Yanukovych also is emphasizing his commitment to European standards in an effort to overcome his lingering image of being "pro-Russian." Tymoshenko, meanwhile, is using the country's poor investment climate as evidence of the Yanukovych government's alleged corruption and mismanagement, and to paint a picture of BYuT as the anti-corruption, reform party. To be fair, neither Yanukovych nor Tymoshenko managed to improve the investment climate significantly during their time in power. (Note.

Tymoshenko was Prime Minister from February to September 2005. End note) Despite all the rhetoric, Ukraine still sits at number 128 on the World Bank's "Doing Business" ranking of the ease of doing business worldwide, ominously lodged between the Palestinian territories and Belarus. Ukrainians can only look with wonder at their color revolutionary cousins the Georgians, who have taken honors as "reformer of the year" for successes in improving the business climate.

TAYLOR